

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7297**

**BILL NUMBER:** HB 1493

**NOTE PREPARED:** Jan 19, 2015

**BILL AMENDED:**

**SUBJECT:** Cost-of-Living Adjustments and Thirteenth Checks.

**FIRST AUTHOR:** Rep. Cherry

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides for cost-of-living adjustments (COLAs) in 2015 and 2016 for certain members of the: (1) Public Employees' Retirement Fund (PERF); (2) Indiana State Teachers' Retirement Fund (TRF); (3) State Police Pre-1987 Benefit System; and (4) State Police 1987 Benefit System.

The bill provides that employer contributions may not be used to pay for the COLAs unless, and only to the extent that, the appropriations in the state budget are insufficient to pay the COLAs.

The bill provides for a thirteenth check in 2015 and 2016 for certain members of the: (1) TRF; (2) PERF; (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan); (4) State Police 1987 Benefit System; and (5) State Police Pre-1987 Benefit System.

The bill provides that employer contributions may not be used to pay for the thirteenth checks unless, and only to the extent that, the appropriations in the state budget are insufficient to pay thirteenth checks.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The bill provides for a COLA and thirteenth check in each of FY 2016 and FY 2017, the amount of which is based on the years of service of the member, with the exception of the two State Police plans, which utilize different increase formulas under the bill. Table 1 reports an estimate of the cost to the state due to the proposed formula and funding plan.

<b>Table 1. State Increase in Pension Benefits from COLAs and Thirteenth Checks *</b>						
	<b>Retirees/ Beneficiaries (Approx.)</b>	<b>First Year COLA + 13<sup>th</sup> Check Cost</b>	<b>Second Year COLA + 13<sup>th</sup> Check Cost</b>	<b>Total Biennial Cost Attributed to COLA</b>	<b>Total Biennial Cost Attributed to 13<sup>th</sup> Check</b>	<b>Total Cost for Biennium</b>
<b>PERF (State)</b>	26,000	\$37.7 M	\$36.6 M	\$66.6 M	\$7.7 M	<b>\$74.3 M</b>
<b>PERF (Local )</b>	52,200	\$76.5 M	\$74.2 M	\$135.1 M	\$15.6 M	<b>\$150.7 M</b>
<b>Pre-1996 TRF</b>	49,000	\$102.0 M	\$99.2 M	\$181.1 M	\$20.1 M	<b>\$201.2 M</b>
<b>1996 TRF (Local)</b>	3,700	\$7.5 M	\$7.3 M	\$13.5 M	\$1.3 M	<b>\$14.8 M</b>
<b>EG&amp;C Plan</b>	200	\$0.4 M	\$0.4 M	\$0.7 M	\$0.1 M	<b>\$0.8 M</b>
<b>Legislator DB Plan</b>	70	\$0.05 M	\$0.05 M	\$0.1 M	N/A	<b>\$0.1 M</b>
<b>Indiana State Police Pre-1987</b>	650	\$0.9 M	\$0.9 M	\$1.7 M	\$0.2 M	<b>\$1.9 M</b>
<b>Indiana State Police 1987</b>	550	\$1.6 M	\$1.6 M	\$2.9 M	\$0.3 M	<b>\$3.2 M</b>
<b>TOTAL **</b>	<b>132,370</b>	<b>\$226.6 M</b>	<b>\$220.3 M</b>	<b>\$401.7 M</b>	<b>\$45.2 M</b>	<b>\$447.0 M</b>
<p>* This analysis uses net present value of future benefits as the metric for cost to these COLA increases. This translates into the amount of funds that are needed today to invest to cover all of the future benefits payable under the bill. The analysis does not account for the amortization of these costs, which will result in yearly increases in either employer contribution rates (as applicable) or increased yearly appropriations. The cost estimates for all of the plans use retiree data as provided to Legislative Services Agency. This analysis is an estimate. A more precise cost estimate may be determined by conducting an actuarial analysis. This data is accurate as of 6/30/13.</p> <p>** Totals may not sum due to rounding.</p>						

The bill requires that employer contribution rates will only be used to pay for these pension increases in the event that sufficient funds are not appropriated for this purpose. As a general rule, the General Fund covers 47% and dedicated funds cover 53% of pension obligations for state employees.

State costs are estimated to be \$281.2 M, and local costs are estimated to be \$165.4 M. However, the bill provides that the local share may be picked up by the state if there are sufficient appropriations provided in the state budget bill for this purpose, in which case the state cost will equal both the state share plus the local share, at a total of approximately \$447 M. For local employees, it is assumed 100% would be covered by the general funds in this analysis. Assuming that sufficient appropriations are in fact made in the state budget bill for this purpose, approximately \$408 M of the total state obligation will be paid out of the state General Fund and approximately \$40 M will be paid out of state dedicated funds.

For all funds except the two State Police funds, the formula is based on an increase of \$7.50 for each year of service (up to 30 years of service, not to include any partial years of service), for a maximum of \$225. The

same formula is used for the calculation of the COLA as well as for the thirteenth check.

For the State Police Pre-1987 Benefit System, increases to retirees with 20 or more years of service are based on a 1% increase of actual benefits currently received. For the State Police 1987 Benefit System, increases are based on a 1% increase of the basic monthly pension amount of a 25-year trooper. The same formula is used in calculating both the COLA and the thirteenth check for the two State Police plans.

Under this bill, the state will bear the costs of the increase for the state-funded portion of PERF (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the EG&C Fund, the State Police Pre-1987 Benefit System, and the State Police 1987 Benefit System. The local PERF portion and the TRF 1996 Fund will impact local units. For purposes of the bill, costs are defined as the increase in the net present value of each pension plan.

*Indiana Public Retirement System (INPRS):* According to INPRS, they will incur approximately \$35,000 in technology costs in regards to system requirements, testing, coding, and deployment for PERF, TRF, EG&C, and the Legislator Defined Benefit plans. These additional costs are a result of the formula changes contained within the bill. Typically, administrative costs of INPRS are absorbed by investment earnings from the respective pension funds.

*Additional Information:* The Pre-1996 Fund is paid for through appropriations from the state General Fund and payments from the Pension Stabilization Fund.

State PERF is actuarially prefunded through employer contributions. PERF employer contribution rates are 11.2% of payroll in FY 2015. Increases to the employer contribution rates would be reflected in contribution rates beginning in FY 2017.

The Legislator Defined Benefit Plan is actuarially prefunded by state General Fund appropriations.

The EG&C Plan is actuarially prefunded through employer contributions. Employer contribution rates are 20.8% of payroll for EG&C as of January 1, 2015. Increases to the employer contribution rates would be reflected in contribution rates beginning in CY 2017.

The EG&C Plan and the Legislator Defined Benefit Plan are statutorily linked to any benefit increases provided to PERF recipients. So both plans receive COLAs when PERF receives a COLA. However, this is not the case for thirteenth checks. The bill only gives the EG&C Plan a thirteenth check and not the Legislator Defined Benefit Plan. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF and TRF impact.

Pension obligations for the Indiana State Police are paid through appropriations from the state General Fund. For the Pre-1987 Benefit system, members typically earn a supplemental retirement benefit increase every time that 6<sup>th</sup> year troopers receive an increase in salary. The bill provides that if 6<sup>th</sup> year troopers are granted a salary increase after 2014 and the salary increase results in a larger supplemental benefit than the COLA implemented by the bill, members will receive the higher benefit increase. The last time a 6<sup>th</sup> year trooper was granted a salary increase was in 2008.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** The local share of PERF is funded through employer contributions (11.2% of payroll for all but a few employers as of January 1, 2015), and local school corporations pay 7.5% of payroll for 1996 TRF. Contribution rates for local PERF and 1996 TRF will be affected by the provisions of the bill, beginning in 2017 (assuming that the postretirement benefit increases outlined in the bill are not picked up by the state).

**Explanation of Local Revenues:**

**State Agencies Affected:** INPRS, All.

**Local Agencies Affected:** Units with members in PERF and school corporations with members in TRF.

**Information Sources:** INPRS and Indiana State Police 2013 retiree data.

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